



West Community  
Credit Union

January 23, 2011

Ben Bernanke  
Chairman Federal Reserve Board  
20th Street & Constitution Avenue, Northwest  
Washington, D C 20551

Docket No. R-1404

Dear Mister Chairman:

I am writing in reference to proposed Regulation II, Debit Card Interchange Fees and Routing. My employer, West Community Credit Union, is a \$125MM asset firm based in O'Fallon, MO serving 18,000 members.

The Dodd-Frank Wall Street Reform and Consumer Protection Act wrongfully attempts to set pricing for transactions that historically have been set based on marketplace supply and demand. The interchange provisions are inconsistent with basic American free enterprise principles; price regulation has generally proven to be a failure, producing unintended consequences, stifling innovation and competition and harming the very people the financial legislation was designed to protect. As a result, consumers may pay more, get less and have no choice – and the provisions pose a tremendous threat to all financial institutions, large and small.

The Board should ask that Congress repeal the Act by removing provisions for interchange price setting. That said, I understand the responsibility of the Board to follow the law and offer these comments.

1. *Reasonable and proportional fees – Alternative One*

This alternative is not practical for networks to administer. Specifically, setting interchange fees either (1) at or below the safe harbor or (2) at an amount for each issuer such that the interchange fee for that issuer does not exceed the issuer's allowable costs, up to the cap, would be overly complex. How would networks determine if the issuer's allowable costs complied with guidelines limiting those costs to authorization, clearing and settlement?

2. *Reasonable and proportional fees – Alternative Two*

Twelve cents is insufficient to cover issuer costs. Issuers should not be limited to recovering just authorization, clearing and settlement costs; rather all costs (i.e. marketing, fraud, card issuance), associated with issuing debit cards should be considered plus a reasonable profit margin.

3. *Fraud Prevention Adjustment*

Unlike authorization, clearing and settlement costs, issuer fraud-prevention and data-security costs can, and should, vary based on issuer tolerance for risk. The Board is over-reaching in its responsibility by trying to determine a technology-specific or non-prescriptive approach to an adjustment for fraud costs.

The Board admitted that “surveys were not comprehensive enough to adequately capture merchant activities nor did they provide a way to determine whether issuers’ fraud-prevention and data-security activities directly benefit merchants by reducing their debit card fraud losses.”

Either approach has implications beyond just issuers. All parties (in either three-party or four party systems) would be impacted.

4. *Small Issuer Exemption*

Exempting issuers with assets of less than \$10 billion will necessitate a two-tier structure by networks that settle with issuers. There are no provisions in the Act for enforcing such a structure. Likely, networks will resort to the 12 cent cap for all issuers, regardless of asset size, given the complexities of managing a two-tier system (alternative two above) or a multi-tiered system (alternative one above).

The unintended consequence of exempting issuers with assets less than \$10 billion will be that merchants, and their acquiring processors, will discriminate against small issuer cards since these transactions will be more costly to process. Small issuers, beginning July 11, 2011, may enjoy higher interchange fees as long as their cards are used by consumers. However, consumers will be compelled to apply for and use cards issued by \$10B+ asset sized firms; accordingly, small issuer volumes (and resulting interchange fees) will decrease.

5. *Network Exclusivity*

Alternative A is the preferred method. This alternative would not result in additional costs for West Community Credit Union. Alternative B would necessitate additional costs involved with joining additional networks.

Either alternative requiring additional network options will stifle innovation for issuers planning enhanced security and convenience by using a key fob or mobile phone embedded with a contactless chip that can only be processed as a signature debit transaction or only on certain networks.

In conclusion, I believe that the debit card provisions of the Dodd-Frank Act are harmful to consumers, financial institutions and the overall economy.

Best regards,

Thomas D. Smith  
Electronic Services Manager